



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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November 12, 2004

**TO:** Senator Lisa Brown, Chair  
Senator Joseph Zarelli  
Representative Jack Cairnes  
Representative Jim McIntire  
Marty Brown, OFM, Director  
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**FROM:** Chang Mook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** November 10, 2004 REVENUE COLLECTION REPORT

Revenue was better than expected this month with General Fund-State receipts \$31.8 million (3.3 percent) above the estimate for period. Most major revenue sources were higher than expected this month. General Fund-State collections are now \$38.8 million higher than expected in the two months since the September forecast. Revenue act (retail sales, business and occupation, use and public utility taxes) taxes (+\$18.1 million), the real estate excise tax (+\$10.8 million) and the estate tax (+\$10.6 million) account for most of this variance

Economic indicators have been mostly positive. Perhaps most encouraging was news that U.S. economy added 337,000 jobs in October, far more than most economists had expected. In addition, the number of jobs created in both August and September were significantly revised upward. The gain in October was the best since March 2004. Less bullish was the news that consumer confidence fell in October for the third straight month, despite the gains in employment. At the state level, housing units authorized soared at a 41.3 percent annual rate in the third quarter of 2004, much higher than expected in September. However, both employment and income growth are believed to be a little weaker than expected in the third quarter.

Revenue Act collection growth was very strong this month which primarily reflects September 2004 business activity of monthly taxpayers and third quarter activity of quarterly filers. Revenue Act receipts were 7.6 percent higher than a year-ago (excluding the impact of special factors). This was up from 4.5 percent last month and 6.3 percent two months ago. The increase this month was, with the exception of March 2004, the best since before the recession (January 2001). An improving job market and a strong housing market more than offset the impact of higher gas prices. Although state income growth was a little weaker than expected in the third quarter, revenue growth was better than expected, a solid 6.2 percent. This was up from 5.2 percent in the second quarter and 5.5 percent in the first quarter of 2004.

Preliminary data by industry for the October 11 to November 11, 2004 collection period based on payment data of more than 13,000 mostly large taxpayers who filed electronically, show a 5.9 percent overall increase in tax payments. Tax payments of businesses in the retail trade and food services sector, were up a very strong 8.9 percent, the best increase since March 2004. Last month retailers reported almost no gain (+0.1 percent increase). All three-digit retail sectors reported increases. The largest gains were reported by building materials/garden retailers (+15.6 percent), apparel and accessories stores (+15.0 percent) and furniture and home furnishings retailers (+15.1 percent). Tax payments by auto dealers were up a healthy 8.2 percent after reporting declines two of the past three months. Overall, tax payments by non retail trade and food services business were up 3.5 percent this month. Last month this category reported a 6.7 percent increase. The construction sector was still strong, reporting a 9.4 percent increase in tax payments for the period.

Non-Revenue Act General Fund taxes collected by the Department of Revenue were again strong this month, exceeding the estimate by \$16.4 million. Stronger than expected real estate excise tax (+\$8.6 million) and "other" taxes, primarily unclaimed property transfers, (+\$8.8 million) more than offset weaker than expected property tax receipts (-\$2.8 million). Cumulatively for the two months since the last forecast, Non Revenue Act taxes are \$20.6 million higher than expected. due primarily to a strong real estate market and settlements of some large estates.

Real estate excise activity remains strong and is again a little above the forecast as mortgage rates have stayed low. Growth continues to slowly decelerate. Taxable activity (based on closings in September which reflect tax payments to the state in October) was 19.2 percent higher than a year-ago. Growth last month was 20.7 percent and was 28.9 percent two months ago. The strength in real estate activity continues to primarily be driven by higher prices. In the most recent month, transactions were 3.3 percent below the year-ago while the value per transaction increased 23.3 percent. Real estate activity is expected to weaken in the fourth quarter if mortgage rates rise as expected.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$28,000 above the estimate for the month and are \$77,000 higher than expected in the two months since the last forecast.

The attached Table 1 provides a comparison of collections with the September 2004 forecast for the October 11 – November 10, 2004 collection period. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**November 10, 2004 Collections Compared to the September 2004 Forecast**  
**Thousands of Dollars**

| <u>Period/Source</u>  | <u>Estimate*</u>   | <u>Actual</u>      | <u>Difference</u> |                |
|---|--------------------|--------------------|-------------------|----------------|
|   |                    |                    | <u>Amount</u>     | <u>Percent</u> |
| <b>September 11 - November 10, 2004</b>   |                    |                    |                   |                |
| Department of Revenue-Total   | \$949,473          | \$981,224          | \$31,752          | 3.3%           |
| Revenue Act** (1)   | 829,134            | 844,435            | 15,301            | 1.8%           |
| Non-Revenue Act(2)  | 120,339            | 136,790            | 16,451            | 13.7%          |
| Liquor Sales/Liter  | 7,625              | 8,249              | 625               | 8.2%           |
| Cigarette   | 4,386              | 4,388              | 3                 | 0.1%           |
| Property (State School Levy)- net after transfer  | 11,442             | 8,623              | (2,820)           | -24.6%         |
| Property tax collections  | 33,433             | 30,618             | (2,816)           | -8.4%          |
| transfer to the Student Achievement Acct.   | (21,991)           | (21,995)           | (4)               | 0.0%           |
| Estate  | 8,432              | 9,683              | 1,250             | 14.8%          |
| Real Estate Excise  | 51,792             | 60,409             | 8,617             | 16.6%          |
| Timber (state share)  | 0                  | 0                  | 0                 | NA             |
| Other   | 36,662             | 45,438             | 8,776             | 23.9%          |
| Department of Licensing (2)   | 544                | 572                | 28                | 5.1%           |
| <b>Total General Fund-State***</b>  | <b>\$950,017</b>   | <b>\$981,797</b>   | <b>\$31,779</b>   | <b>3.3%</b>    |
| <b>Cumulative Variance Since the September 2004 Forecast (September 11, 2004 - November 10, 2004)</b> |                    |                    |                   |                |
| Department of Revenue-Total   | \$1,753,963        | \$1,792,684        | 38,721            | 2.2%           |
| Revenue Act** (3)   | 1,554,669          | 1,572,810          | 18,141            | 1.2%           |
| Non-Revenue Act(4)  | 199,294            | 219,874            | 20,580            | 10.3%          |
| Liquor Sales/Liter  | 16,443             | 16,677             | 234               | 1.4%           |
| Cigarette   | 8,810              | 9,112              | 302               | 3.4%           |
| Property (State School Levy)-net after transfer   | (315)              | (3,375)            | (3,060)           | 970.9%         |
| Property tax collections  | 21,676             | 18,620             | (3,056)           | -14.1%         |
| transfer to the Student Achievement Acct.   | (21,991)           | (21,995)           | (4)               | 0.0%           |
| Estate  | 19,884             | 30,607             | 10,723            | 53.9%          |
| Real Estate Excise  | 112,593            | 123,189            | 10,596            | 9.4%           |
| Timber (state share)  | 0                  | (0)                | (0)               | NA             |
| Other   | 41,879             | 43,664             | 1,785             | 4.3%           |
| Department of Licensing (4)   | 1,250              | 1,326              | 77                | 6.2%           |
|   |                    |                    |                   | NA             |
| <b>Total General Fund-State***</b>  | <b>\$1,755,212</b> | <b>\$1,794,010</b> | <b>\$38,798</b>   | <b>2.2%</b>    |

1 Collections October 11 - November 10, 2004. Collections primarily reflect September 2004 activity of monthly taxpayers and third quarter activity of quarterly filers.

2 October 1-31, 2004 collections.

3 Cumulative collections, estimates and variance since the September 2004 forecast; (September 11 - November 10, 2004) and revisions to history.

4 Cumulative collections, estimates and variance since the September forecast; (September & October 2004) and revisions to history.

\* Based on the September 2002 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 97% of total General Fund-State revenue.

**TABLE 2**  
**October 10, 2004 Collection Report - Revised Data**  
**Thousands of Dollars**

| <u>Period/Source</u>                      | <u>Collections</u> |                | <u>Difference</u> |                |
|---|--------------------|----------------|-------------------|----------------|
|   | <u>Preliminary</u> | <u>Revised</u> | <u>Amount</u>     | <u>Percent</u> |
| <b>September 11 - October 10, 2004</b>    |                    |                |                   |                |
| Department of Revenue-Total               | \$811,459          | \$811,459      | \$0               | 0.0%           |
| Revenue Act (1)                           | 728,375            | 728,375        | (0)               | -0.0%          |
| Non-Revenue Act(2)                        | 83,084             | 83,084         | 0                 | 0.0%           |
| Liquor Sales/Liter                        | 8,427              | 8,427          | 0                 | 0.0%           |
| Cigarette                                 | 4,724              | 4,724          | (0)               | -0.0%          |
| Property (State School Levy)-net          | (11,997)           | (11,997)       | (0)               | 0.0%           |
| Property tax collections                  | 9,998              | 9,998          | (0)               | -0.0%          |
| transfer to the Student Achievement Acct. | (21,995)           | (21,995)       | 0                 | NA             |
| Estate                                    | 20,925             | 20,925         | (0)               | -0.0%          |
| Real Estate Excise                        | 62,780             | 62,780         | 0                 | 0.0%           |
| Timber (state share)                      | 0                  | 0              | 0                 | NA             |
| Other                                     | (1,774)            | (1,774)        | (0)               | 0.0%           |
| Department of Licensing (2)               | 754                | 756            | 2                 | 0.3%           |
| Lottery (2)                               | 0                  | 0              | 0                 | NA             |
| <b>Total General Fund-State***</b>        | <b>812,214</b>     | <b>812,215</b> | <b>\$1</b>        | <b>0.0%</b>    |

**Cumulative Receipts: September 11 - October 10, 2004 & Revisions to History**

|   |                  |                  |            |             |
|---|------------------|------------------|------------|-------------|
| Department of Revenue-Total                     | 811,459          | \$811,459        | \$0        | 0.0%        |
| Revenue Act (3)                                 | 728,375          | 728,375          | (0)        | -0.0%       |
| Non-Revenue Act(4)                              | 83,084           | 83,084           | 0          | 0.0%        |
| Liquor Sales/Liter                              | 8,427            | 8,427            | 0          | 0.0%        |
| Cigarette                                       | 4,724            | 4,724            | (0)        | -0.0%       |
| Property (State School Levy)-net after transfer | (11,997)         | (11,997)         | (0)        | 0.0%        |
| Property tax collections                        | 9,998            | 9,998            | (0)        | -0.0%       |
| transfer to the Student Achievement Acct.       | (21,995)         | (21,995)         | 0          | NA          |
| Estate  | 20,925           | 20,925           | (0)        | -0.0%       |
| Real Estate Excise                              | 62,780           | 62,780           | 0          | 0.0%        |
| Timber (state share)                            | 0                | 0                | 0          | NA          |
| Other   | (1,774)          | (1,774)          | (0)        | 0.0%        |
| Department of Licensing (4)                     | 753              | 756              | 3          | 0.4%        |
| Lottery (4)                                     | 0                | 0                | 0          | NA          |
| <b>Total General Fund-State***</b>              | <b>\$812,212</b> | <b>\$812,215</b> | <b>\$3</b> | <b>0.0%</b> |

Preliminary. Reported in the October 10, 2004 collection report.

1 Collections September 11 - October 10, 2004. Collections primarily reflect August 2004 business activity of monthly taxpayers.

2 September 1-30, 2004 collections.

3 Cumulative receipts since the September 2004 forecast: September 11- October 10,2004 & revisions to history.

4 Cumulative receipts since the September 2004 forecast (September ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections

Year-over-Year Percent Change

